

Prepared by: Sandra Riggs, Assistant Attorney General
On behalf of the Virginia Gas and Oil Board

BOOK 457 PAGE 647

V I R G I N I A:

BEFORE THE VIRGINIA GAS AND OIL BOARD

| | | | |
|--------------------|-------------------------------------|---|---------------|
| APPLICANT: | BUCHANAN PRODUCTION COMPANY |) | |
| | |) | VIRGINIA GAS |
| | |) | AND OIL BOARD |
| RELIEF SOUGHT: | POOLING OF INTERESTS IN |) | |
| | DRILLING UNIT NO. N-13 |) | DOCKET NO. |
| | LOCATED IN THE OAKWOOD |) | 96-0917-0555 |
| | COALBED METHANE GAS FIELDS |) | |
| | I AND II PURSUANT TO VA. |) | |
| | CODE ANN. § 45.1-361.22, |) | |
| | FOR THE PRODUCTION OF |) | |
| | OCCLUDED NATURAL GAS PRODUCED |) | |
| | FROM COALBEDS AND ROCK STRATA |) | |
| | ASSOCIATED THEREWITH |) | |
| | FROM FRAC WELLS, SHORT HOLES, |) | |
| | UNSEALED GOB, AND ANY |) | |
| | ADDITIONAL WELLS THAT MAY |) | |
| | BE AUTHORIZED PURSUANT TO |) | |
| | VA. CODE ANN. § 45.1-361.20 |) | |
| | (herein collectively referred |) | |
| | to as "Coalbed Methane Gas" |) | |
| | or "Gas") AND DESIGNATION OF |) | |
| | APPLICANT AS UNIT OPERATOR |) | |
| LEGAL DESCRIPTION: | |) | |
| | |) | |
| | DRILLING UNIT NUMBER N-13 |) | |
| | (Hereafter "Subject Drilling Unit") |) | |
| | IN THE OAKWOOD COALBED METHANE GAS |) | |
| | FIELDS I AND II |) | |
| | SOUTH GRUNDY MAGISTERIAL DISTRICT, |) | |
| | VANSANT MOUNTAIN QUADRANGLE |) | |
| | BUCHANAN COUNTY, VIRGINIA |) | |
| | (the "Subject Lands" are more |) | |
| | particularly described on Exhibit |) | |
| | "A", attached hereto and made a |) | |
| | part hereof) |) | |

REPORT OF THE BOARD

FINDINGS AND ORDER

1. Hearing Date and Place: The application of Buchanan Production Company (herein "Applicant") in the above-styled cause for the pooling of Subject Drilling Unit pursuant to Va. Code § 45.1-361.22 requesting, among other things, that the Board pool Subject Drilling Unit and name CONSOL Inc. as the Operator of said Unit (herein "Applicant's Pooling Application") came on for hearing before the Virginia Gas and Oil Board (herein "Board") at 9:00 a.m. on September 17, 1996, Dickenson Conference Room, 4-H Center, Abingdon, Virginia. Objections to Applicant's Pooling Application were filed by MAC CONST., Inc. (herein

"Respondent") who appeared at the hearing to move for a continuance of Applicant's Pooling Application to allow Respondent an opportunity to obtain new counsel. Applicant's Pooling Application came on again for hearing at 1:00 p.m. on October 15, 1996, Breaks Interstate Park, Buchanan County, Virginia at which time the Respondent, through counsel, moved to stay the Pooling Application pending resolution of Lawsuits filed by Respondent in the Circuit Court of Buchanan County, Virginia, or in the alternative, Respondent moved for a 60-day continuance of the hearing on Applicant's Pooling Application to allow Respondent time to file with the Board its own application for the pooling of Subject Drilling Unit pursuant to Va. Code § 45.1-361.22 and to request that Respondent be named as the Unit Operator of Subject Drilling Unit (herein "Respondent's Pooling Application"). Respondent's request for a stay of Applicant's Pooling Application was denied by the Board; however, Respondent's motion for a 60-day continuance of the hearing on Applicant's Pooling Application was granted by the Board to allow Respondent time to file, give notice and schedule a simultaneous hearing before the Board on Respondent's Pooling Application. Respondent filed with the Board Respondent's Pooling Application styled "Division of Gas and Oil Docket No.96-1217-0559, which came on for hearing before the Board at 9:00 a.m. on December 16, 1996, Dickenson Conference Center, Southwest Virginia 4-H Center, Abingdon, Virginia. Applicant's Pooling Application likewise came on for further hearing before the Board at 9:00 a.m. on December 16, 1996, Dickenson Conference Center, Southwest Virginia Education 4-H Center, Abingdon, Virginia. Prior to reaching a decision with respect to either the Applicant's Pooling Application or the Respondent's Pooling Application, the Board concluded its hearing as to each, and for purposes of reaching its decision on each, the Board consolidated the testimony given in both applications.

2. Appearances: Mark A. Swartz of Kay, Casto, Chaney, Love and Wise, appeared for the Applicant; Michael A. Bragg and Emmitt Yeary of Yeary and Associates, P.C. together with James R. Kibler, Jr. of Mezzulo and McClandish as Co-Counsel, appeared for Respondent. Sandra B. Riggs was present to advise to Board.

3. Jurisdiction and Notice: Pursuant to Va. Code Ann. §§ 45.1-361.1 et seq., the Board finds that it has jurisdiction over the subject matter. Based upon the evidence presented, the Board also finds that the Applicant has (1) exercised due diligence in conducting a search of the reasonably available sources to determine the identity and whereabouts of gas and oil owners, coal owners, mineral owners and/or potential owners, i.e., persons identified by Applicant as having ("Owner") or claiming ("Claimant") the rights to Coalbed Methane Gas in all coal seams below the Tiller Seam (hereafter "Subject Formation") in Subject Drilling Unit underlying and comprised of Subject Lands; (2) has given notice to all such parties (hereafter sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) entitled by Va. Code Ann. §§ 45.1-361.19 and 45.1-361.22, to notice of this Application; and (3) that the persons set forth in Exhibit B hereto are persons identified by Applicant through its due diligence who may be Owners or Claimants of Coalbed Methane Gas interests in Subject Formation, in Subject Drilling Unit underlying and comprised of Subject Lands. Set forth in Exhibit B-3 hereto are those Owners or Claimants of Gas interests in Subject Formation, in Subject Drilling Unit underlying and comprised of Subject Lands who have not heretofore agreed to lease or sell to the Applicant and/or voluntarily pool said Gas interests. Conflicting Gas

Owners/Claimants in Subject Drilling Unit are listed on Exhibit E. Further, the Board has caused notice of this hearing to be published as required by Va. Code Ann. § 45.1-361.19.B. Whereupon, the Board hereby finds that the notices given herein satisfy all statutory requirements, Board rule requirements and the minimum standards of state due process.

4. Amendments: None.

5. Dismissals: None.

6. Relief Requested: Applicant requests (1) that pursuant to Va. Code Ann. § 45.1-361.22, including the applicable portions of Va. Code Ann. § 45.1-361.21, the Board pool all the rights, interests and estates in and to the Gas in Subject Drilling Unit of the known and unknown persons named in Exhibit B hereto and that of their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, for the drilling and operation, including production, of Coalbed Methane Gas, produced from the Subject Drilling Unit established for the Subject Formation underlying and comprised of the Subject Lands, (hereafter sometimes collectively identified and referred to as "well development and/or operation in the Subject Drilling Unit"), and (2) that the Board designate CONSOL Inc. as Unit Operator.

7. Relief Granted: The requested relief in this cause be and hereby is granted: (1) Pursuant to Va. Code Ann. § 45.1-361.21.C.3, CONSOL Inc. (hereafter "Unit Operator") is designated as the Unit Operator authorized to drill and operate the well(s) in the Subject Drilling Unit, including the stimulation of all coals seams when authorized pursuant to clause (iii) of subdivision 2b of subsection F of Va. Code § 45.1-361.29, all subject to: the permit provisions contained in Va. Code Ann. § 45.1-361.27 et seq.; to the Oakwood Coalbed Methane Gas Field I Order OGCB 3-90, dated May 18, 1990; to the Oakwood Coalbed Gas Field II Board's Order 91-1119-0162 effective as of December 17, 1992, to § 480-05-22.1 et seq., Gas and Oil Regulations; and to §§ 480-05-22.2 et seq., Virginia Gas and Oil Board Regulations, all as amended from time to time, and (2) all the interests and estates in and to the Gas in Subject Drilling Unit of the known and unknown persons listed on Exhibit B, attached hereto and made a part hereof, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, be and hereby are pooled in the Subject Formation in the Subject Drilling Unit underlying and comprised of the Subject Lands.

| Subject Formation | Unit Size | Permitted Well Location(s) | Field and Well Classification | Order Number |
|--|--|---|---|---|
| All coalbeds and coal seams below the Tiller seam, including, but not limited to Upper Seaboard, Greasy Creek, Middle Seaboard, Lower Seaboard, Upper, Horsepen, Middle Horsepen, War Creek, Lower Horsepen, Pocahontas Nos. 9, 8, 7, 6, 5, 4, 3, 2 and various unnamed seams and associated rock strata | Approximately 80-acre square drilling unit | At permissible locations set by the Board in its Oakwood I and Oakwood II Field Rules | Oakwood Coalbed Gas Field I and Oakwood Coalbed Methane Gas Field II for Coalbed Methane Gas including Frac Well Gas, as well as Unsealed Gob Gas, Short Hole Gas, and Gas from any Additional Well | OGCB 3-90, as amended, ("Oakwood I Field Rules") and VGOB 91-1119-0162, As Amended ("Oakwood II Field Rules") |

For the Subject Drilling Unit
underlying and comprised of the Subject
Land referred to as:

Unit Number N-13
Buchanan County, Virginia

- 7.1 Oakwood I Field Rules - for Frac Well Gas. - Pursuant to the Oil and Gas Conservation Board's Order No. 3-90, as amended, prior to the actual commencement of coal mining operations by the driving of entries and completion of isolation of any long wall panel under Subject Drilling Unit, Gas from any well located in Subject Drilling Unit, even though it may eventually be located in a proposed long wall panel, will be produced from and allocated to only Subject Drilling Unit according to the undivided interests of each Owner/Claimant within said unit, which undivided interest will be the ratio (expressed as a percentage) that the amount of mineral acreage within each separate tract that is within the Subject Drilling Unit, when platted on the surface, bears to the total mineral acreage, when platted on the surface, contained within said unit.
- 7.2 Oakwood II Field Rules - Unsealed Gob Gas, Short Hole Gas and Gas for any Addition Well - Pursuant to the Board's Order No. VGOB 91-1119-0162, as amended, if at any time there is located within the boundaries of Subject Drilling Unit a long wall panel which has been isolated by the driving of entries and from which Unsealed Gob Gas,

Short Hole Gas or Gas from any Additional Well authorized by the Va. Code §45.1-361.20.C is produced, the Unit Operator will calculate production and revenue based upon the mine plan as implemented within Subject Drilling Unit and in particular, based upon the mineral acreage, as platted upon the surface, in Subject Drilling Unit actually contained within a long wall panel as depicted by said mine plan. Except as otherwise provided herein, a copy of the pertinent portion of the mine plan being utilized to calculate production, revenue and costs from any affected 80-acre drilling unit will be filed of record with the Board prior to the payment of any revenue based upon such calculations. In such event, the formula or division of interest for production from Subject Drilling Unit if and when affected by a long wall panel and from any separately owned tract in any said unit will be calculated as follows:

- i. For Short Hole Gas - The amount of production produced from and attributed to Subject Drilling Unit will be the ratio (expressed as a percentage) that the amount of mineral acreage, when platted on the surface, which is both in the said unit and the long wall panel, bears to the total mineral acreage, when platted on the surface, contained within the entire long wall panel affecting Subject Drilling Unit.
- ii. For Unsealed Gob Gas - The amount of production produced from and attributed to Subject Drilling Unit will be the ratio (expressed as a percentage) that the amount of mineral acreage, when platted on the surface, which is both in Subject Drilling Unit and the long wall panel, bears to the total mineral acreage, when platted on the surface, contained within the entire long wall panel affecting said unit.
- iii. For Gas When Additional Well(s) Are Drilled in the Manner Authorized by Va. - after actual commencement of coal mining operations by the driving of entries and completion of isolation of a long wall panel, the amount of Gas produced from wells in Subject Drilling Unit and attributed to same will be the ratio (expressed as a percentage) that the amount of mineral acreage, when platted on the surface, which is both in the Subject Drilling Unit and the isolated long wall panel, bears to the total mineral acreage, when platted on the surface, contained within the entire long wall panel affecting said unit.

8. Election and Election Period: In the event the Respondent, the only Gas Owner/Claimant named in Exhibit B-3 hereto, is unable within the time established herein for the making of elections to negotiate and reach a voluntary agreement to share in the operation of the wells to be located in the Subject Drilling Unit at a rate of payment mutually agreed to by Respondent and the Applicant or Operator (herein "Voluntary Agreement"), then Respondent may elect one of the options set forth in Paragraph 9 below and must give written notice of his election of the option selected under Paragraph 9 to the designated Unit Operator at the address shown below within thirty (30) days from the date this

Order is recorded in the county above named. A timely election will be deemed to have been made if, on or before the last day of said 30-day period, such electing person has delivered his written election to the designated Unit Operator at the address shown below or has duly postmarked and placed its written election in first class United States mail, postage prepaid, addressed to the Unit Operator at the address shown below.

9. Election Options - Pending a final legal determination of ownership of the Gas produced from well(s) drilled on and/or within Subject Drilling Unit:

- 9.1 Option 1 - To Participate In The Development and Operation of the Drilling Unit: In the event Respondent does not reach a Voluntary Agreement, he may elect to participate in the development and operation of the Subject Drilling Unit (hereafter "Participating Operator") by agreeing to pay the estimate of such Participating Operator's proportionate part of the actual and reasonable costs of the development contemplated by this Order for frac well gas, short hole gas, unsealed gob gas and gas from any increased density well under Oakwood II, including a reasonable supervision fee, of the well development and operation in the Subject Drilling Unit, as more particularly set forth in Virginia Gas and Oil Board Regulation VR 480-05-22.2, Section 10 (herein "Allocable, Completed for Production Costs"). Further, a Participating Operator agrees to pay the estimate of such Participating Operator's proportionate part of the Allocable, Completed-for-Production Costs as set forth below to the Unit Operator within forty-five (45) days from the later of the date of mailing or the date of recording of this Order. The estimated Completed-for-Production Costs for the Subject Drilling Unit are as follows:

Estimated Completed-for-Production Costs:\$230,542.00

A Participating Operator's proportionate cost hereunder will be the results obtained by multiplying the Participating Operators' "Percent of Unit" in each panel located within Subject Drilling Unit as set forth in Exhibit B-3, times the estimated Completed-for-Production Panel Cost set forth above. Provided, however, that in the event a Participating Operator elects to participate and fails or refuses to pay the estimate of his proportionate part of the estimated Completed-for Production Costs as set forth above, all within the time set forth herein and in the manner prescribed in Paragraph 8 of this Order, then such Participating Operator will be deemed to have elected not to participate and to have elected compensation in lieu of participation pursuant to Paragraph 9.2 herein.

- 9.2 Option 2 - To Receive A Cash Bonus Consideration: In lieu of participating in the development and operation of Subject Drilling Unit under Paragraph 9.1 above, in the event the

Respondent does not reach a Voluntary Agreement, he may elect to accept a cash bonus consideration of \$1.00 per net mineral acre owned/claimed by him, commencing upon entry of this Order and continuing annually until commencement of production from Subject Drilling Unit, and thereafter a royalty of 1/8th of 8/8ths [twelve and one-half percent (12.5%)] of the net proceeds received by the Unit Operator for the sale of the Coalbed Methane Gas produced from any well development covered by this Order multiplied by that person's proportional share of said production [for purposes of this Order, net proceeds will be actual proceeds received less all post-production costs incurred downstream of the wellhead, including, but not limited to, all gathering, compression, treating, transportation and marketing costs, whether performed by Unit Operator or a third person) as fair, reasonable and equitable compensation to be paid to said Gas Owner/Claimant. The initial cash bonus will become due and owing when so elected and will be tendered, paid or escrowed within sixty (60) days of recording of this Order. Thereafter, annual cash bonuses, if any, will become due and owing on each anniversary of the date of recording of this order in the event production from Subject Drilling Unit has not theretofore commenced, and once due, will be tendered, paid or escrowed within sixty (60) days of said anniversary date. Once the initial cash bonus and the annual cash bonuses, if any, are so paid or escrowed, subject to a final legal determination of ownership, said payment(s) will be satisfaction in full for the right, interests, and claims of such electing person in and to the Gas produced from Subject Formation in the Subject Lands, except, however, for the 1/8th royalties due hereunder.

Subject to a final legal determination of ownership, the election made under this Paragraph 9.2, when so made, will be satisfaction in full for the right, interests, and claims of such electing person in any well development and operation covered hereby and such electing person will be deemed to and hereby does lease and assign, its right, interests, and claims in and to the Gas produced from Subject Formation in the Subject Drilling Unit to the Applicant.

- 9.3. Option 3 - To Share In The Development And Operation As A Non-Participating Person On A Carried Basis And To Receive Consideration In Lieu Of Cash: In lieu of participating in the development and operation of Subject Drilling Unit under Paragraph 9.1 above and in lieu of receiving a cash bonus consideration under Paragraph 9.2 above, in the event Respondent is unable to reach a Voluntary Agreement with the Applicant or Operator, he may elect to share in the development and operation of Subject Drilling Unit on a carried basis (as a "Carried Well Operator") so that the proportionate part of the Completed-for-Production Costs hereby allocable to such Carried Well Operator's interest is charged against such Carried Well Operator's share of production from Subject Drilling Unit. Such Carried Well

Operator's rights, interests, and claims in and to the Gas in Subject Drilling Unit will be deemed and hereby are assigned to the Applicant until the proceeds from the sale of such Carried Well Operator's share of production from Subject Drilling Unit (exclusive of any royalty, excess or overriding royalty, or other non-operating or non cost-bearing burden reserved in any lease, assignment thereof or agreement relating thereto covering such interest) equals three hundred percent (300%) for a leased interest or two hundred percent (200%) for an unleased interest (whichever is applicable) of such Carried Well Operator's share of the Completed-for-Production Costs allocable to the interest of such Carried Well Operator. When the Applicant recoups and recovers from such Carried Well Operator's assigned interest the amounts provided for above, then, the assigned interest of such Carried Well Operator will automatically revert back to such Carried Well Operator, and from and after such reversion, such Carried Well Operator will be treated as if it had participated initially under Paragraph 9.1 above; and thereafter, such participating person will be charged with and will pay his proportionate part of all further costs of such well development.

Subject to a final legal determination of ownership, the election made under this Paragraph 9.3, when so made, will be satisfaction in full for the rights, interests, and claims of such electing person in any well development and operation covered hereby and such electing person will be deemed to have and hereby does assign its rights, interests, and claims in and to the Gas produced from Subject Formation in the Subject Drilling Unit to the Applicant for the period of time during which its interest is carried as above provided prior to its reversion back to such electing person.

10. Failure to Properly Elect: In the event Respondent is unable to reach a Voluntary Agreement with the Applicant or Operator and fails to elect within the time, in the manner and in accordance with the terms of this Order, one of the alternatives set forth in Paragraph 9 above for which his interest qualifies, then he will be deemed to have elected not to participate in the proposed development and operation of Subject Drilling Unit and will be deemed, subject to a final legal determination of ownership, to have elected to accept as satisfaction in full for his right, interests, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which his interest qualifies and will be deemed to have leased and/or assigned his right, interests, and claims in and to the Gas produced from Subject Formation in the Subject Drilling Unit to the Applicant. Persons who fail to properly elect will be deemed, subject to a final legal determination of ownership, to have accepted the compensation and terms set forth herein at Paragraph 9.2 in satisfaction in full for the right, interests, and claims of such person in and to the Gas produced from the Subject Formation underlying Subject Lands.

11. Default By Participating Person: In the event Respondent, the person named in Exhibit B-3, elects to participate under Paragraph 9.1, but fails or refuses to pay, to secure the payment or to make an arrangement with the Unit

Operator for the payment of his proportionate part of the Estimated Completed-for-Production Cost as set forth herein, all within the time and in the manner as prescribed in this Order, then such person will be deemed to have withdrawn his election to participate and will be deemed to have elected to accept as satisfaction in full for such person's right, interest, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which his interest qualifies depending on the excess burdens attached to such interest. Whereupon, any cash bonus consideration due as a result of such deemed election will be tendered, paid or escrowed by Unit Operator within sixty (60) days after the last day on which such defaulting person under this Order should have paid his proportionate part of such cost or should have made satisfactory arrangements for the payment thereof. When such cash bonus consideration is paid or escrowed, it will be satisfaction in full for the right, interests, and claims of such person in and to the Gas underlying Subject Drilling Unit in the Subject Lands covered hereby, except, however, for any royalties which would become due pursuant to Paragraph 9.2 hereof.

12. Assignment of Interest: In the event Respondent is unable to reach a voluntary agreement to share in the operation of the well operation and development contemplated by this Order at a rate of payment agreed to mutually by said Gas Owner/Claimant and the Applicant or Operator, and such person elects or fails to elect to do other than participate under Paragraph 9.1 above in the development and operation of the wells in Subject Formations in Subject Drilling Unit, then subject to a final legal determination of ownership, such person will be deemed to have and will have assigned unto Applicant such person's right, interests, and claims in and to said wells, in Subject Formation in Subject Drilling Unit, and other share in production to which such person may be entitled by reason of any election or deemed election hereunder in accordance with the provisions of this Order governing said election.

13. Unit Operator (or Operator): CONSOL Inc., be and hereby is designated as Unit Operator authorized to drill and operate the well(s) in Subject Formation in Subject Drilling Unit, all subject to the permit provisions contained in Va. Code Ann. §§ 45.1-361.27 et seq.; §§ 480-05-22.1 et seq., Gas and Oil Regulations; §§ 480-05-22.2 et seq., Virginia Gas and Oil Board Regulations; the Oakwood Coalbed Gas Field I Order OGCB 3-90 and the Oakwood Coalbed Methane Gas Field II Order VGOB 91-1119-0162, all as amended from time to time, and all elections required by this Order will be communicated to Unit Operator in writing at the address shown below:

CONSOL Inc.
P. O. Box 947
Bluefield, VA 24605
Phone: (540) 988-1015
Fax: (540) 988-1055
Attn: Leslie K. Arrington

14. Commencement of Operations: Unit Operator will commence or cause to commence operations for the drilling of the well(s) within the Subject Drilling Unit and/or the well(s) outside the Subject Drilling Unit but from which production is allocated to the Subject Drilling Unit within three hundred and sixty-five (365) days from the date of this Order and will prosecute the same with due diligence. If Unit Operator will not have so commenced and/or

prosecuted, then this Order will terminate, except for any cash sums then payable hereunder; otherwise, unless sooner terminated by Order of the Board, this Order will expire at 12:00 P.M. on the date on which all well(s) drilled within the Subject Drilling Unit and/or all wells from which production is allocated to the Subject Drilling Unit are permanently abandoned and plugged. However, in the event an appeal is taken from this Order, then the time between the filing of the petition for appeal and the final Order of the Circuit Court will be excluded in calculating the three hundred and sixty-five (365) day period referred to herein.

Upon completion of any well whose costs comprise part of the Estimated Completed-for-Production Costs set forth in Paragraph 9.1 above, and within ninety (90) days after production into the pipeline is obtained and restoration of the location is completed, the Operator will file with the Board a revised exhibit reflecting the actual, Completed-for-Production Costs for the Subject Drilling Unit.

15. Operator's Lien: Unit Operator, in addition to the other rights afforded hereunder, will have a lien and a right of set off on the Gas estates, rights, and interests owned by any person subject hereto who elects to participate under Paragraph 9.1 in the Subject Drilling Unit to the extent that costs incurred in the drilling or operation on the Subject Drilling Unit are chargeable against such person's interest. Such liens and right of set off will be separable as to each separate person and will remain liens until the Unit Operator drilling or operating any well covered hereby has been paid the full amounts due under the terms of this Order.

16. Escrow Provisions:

By this Order, the Board instructs the Escrow Agent named herein or any successor named by the Board to establish an interest-bearing escrow account, (herein "the Escrow Account") to receive and account to the Board pursuant to its agreement for the escrowed funds hereafter described:

Tazewell National Bank
Trust Department
c/o Premier Bankshares Corporation
29 College Drive, P. O. Box 1199
Bluefield, VA 24605-1199
Telephone: (540) 322-2242
Fax: (540) 322-2766

16.1. Escrow Provisions For Unknown or Unlocatable Persons: If any payment of bonus, royalty payment or other payment due and owing under this Order cannot be made because the person entitled thereto cannot be located or is unknown, then such cash bonus, royalty payment, or other payment will not be commingled with any funds of the Unit Operator and will, pursuant to Va. Code Ann. § 45.1-361.21.D, and said sums will be deposited by the Operator into the Escrow Account, commencing within sixty (60) days of recording of this Order, and continuing thereafter on a monthly basis with each deposit to be made, by use of a report format approved by the Inspector, by a date which is no later than sixty (60) days

after the last day of the month being reported and/or for which funds are being deposited. Such funds will be held for the exclusive use of, and sole benefit of the person entitled thereto until such funds can be paid to such person(s) or until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board in accordance with Va. Code Ann. § 45.1-361.21.D.

16.2 Escrow Provisions For Conflicting Claimants: If any payment of bonus, royalty payment or other payment due and owing under this Order cannot be made because the person entitled thereto cannot be made certain due to conflicting claims of ownership and/or a defect or cloud on the title, then such cash bonus, royalty payment or other payment, together with Participating Operator's Proportionate Costs paid to Operator pursuant to Paragraph 9.1 hereof, if any, (1) will not be commingled with any funds of the Unit Operator; and (2) will, pursuant to Va. Code Ann. §§ 45.1-361.22.A.2, 45.1-361.22.A.3 and 45.1-361.22.A.4, be deposited by the Operator into the Escrow Account within sixty (60) days of recording of this Order, and continuing thereafter on a monthly basis with each deposit to be made, by use of a report format approved by the Inspector, by a date which is no later than sixty (60) days after the last day of the month being reported and/or for which funds are subject to deposit. Such funds will be held for the exclusive use of, and sole benefit of, the person entitled thereto until such funds can be paid to such person(s) or until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board.

17. Special Findings: The Board specifically and specially finds:

- 17.1. Applicant is a Virginia general partnership comprised of Appalachian Operators, Inc., and Appalachian Methane, Inc., who are wholly owned indirect subsidiaries of MCN Corporation. Applicant is duly authorized and qualified to transact business in the Commonwealth of Virginia;
- 17.2 CONSOL Inc. has accepted Applicant's delegation of authority to explore, develop and maintain the properties and assets of Applicant now owned or hereafter acquired, has agreed to explore, develop and maintain the properties and assets of Applicant, and has consented to serve as coalbed methane gas wells Unit Operator for Subject Drilling Unit and to faithfully discharge the duties imposed upon it as Unit Operator by statute and regulation.
- 17.3 CONSOL Inc. is a Delaware corporation duly authorized to transact business in the Commonwealth of Virginia and is an operator in the Commonwealth of Virginia and has satisfied the Board's requirements for operations in Virginia;

- 17.4 Applicant, Buchanan Production Company, claims ownership of gas leases, coalbed methane gas leases, and/or coal leases representing 100 percent of the oil and gas interest and 100 percent of the coal interest in Subject Drilling Unit, and applicant claims the right to explore for, develop and produce Coalbed Methane Gas from coal seams below the Tiller seam in Unit Number N-13 in Buchanan County, Virginia, which Subject Lands are more particularly described in Exhibit "A";
- 17.5 The Unit Operator proposes to market the Gas through the Oakwood Gathering System whose construction is extending to the Subject Drilling Unit from the south and will reach the vicinity of Subject Drilling Unit in approximately 6 months. The Oakwood Gathering System connects to the Cardinal States system in West Virginia which ultimately connects to the Columbia system.
- 17.6 The estimated total production from Subject Drilling Unit is 125 to 550 MMCF. The estimated amount of reserves from the Subject Drilling Unit is 125 to 550 MMCF.
- 17.7 Longwall mining has occurred under a portion, but not all, of Subject Drilling Unit. Such mining was conducted by Island Creek Coal Company who holds the Mine license for the VP-1 Mine in which said mining occurred. The current status of the mine is idled/inactive, but not permanently sealed.
- 17.8 Two or more separately owned tracts are embraced in Subject Drilling Unit as depicted in Exhibit A hereto, and there are separately owned/claimed interests in all or part of Subject Drilling Unit and some of those claiming such interests have not agreed to pool their interests. The Owners (coal fee ownerships and the oil and gas fee ownerships) within Subject Drilling Unit are set forth on Exhibit B, all of whose Gas interests are held or have been voluntarily leased to the Applicant or Unit Operator. The name of the Respondent is set forth in Exhibit B-3 as a Claimant who has not, in writing, leased to the Applicant or the Unit Operator or agreed to voluntarily pool his interests, if any, in Subject Drilling Unit for its operation and/or development. Respondent owns the surface estate of 75.375 percent of the Subject Drilling Unit and for the reasons set forth in Respondent's Pooling Application claims the Gas in the Subject Drilling Unit. Set forth in exhibit E are the conflicting Owners/Claimants within Subject Drilling Unit.
- 17.9 Applicant's evidence established that the fair, reasonable and equitable compensation to be paid to any person in lieu of the right to participate in any well covered hereby are those options provided in Paragraph 9 above;

17.10 The relief requested and granted is just and reasonable, is supported by substantial evidence and, pending a final legal determination of ownership of the Gas will afford each person listed and named in Exhibit B-3 hereto the opportunity to recover or receive, without unnecessary expense, such person's just and fair share of the production from Subject Drilling Unit. The granting of the Application and relief requested therein will ensure to the extent possible the greatest ultimate recovery of Coalbed Methane Gas, prevent or assist in preventing the various types of waste prohibited by statute and protect or assist in protecting the correlative rights of all persons in the subject common sources of supply in the Subject Lands. Therefore, the Board is entering an Order granting the relief set forth in Paragraph 7 above and 20 below.

18. Mailing Of Order And Filing Of Affidavit: Applicant or its Attorney will file an affidavit with the Secretary of the Board within sixty (60) days after the date of recording of this Order stating that a true and correct copy of said Order was mailed within seven (7) days from the date of its receipt to each Owner/Claimant named in Exhibits B and B-3 whose Gas interests, if any, are pooled by this Order and whose address is known.


19. Availability of Unit Records: The Director will provide all persons not subject to a lease with reasonable access to all records for Subject Drilling Unit which are submitted by the Unit Operator to said Director and/or his Inspector(s).

20. Conclusion: Therefore, the requested relief and all terms and provisions set forth above be and hereby are granted and IT IS SO ORDERED.

21. Appeals: Appeals of this Order are governed by the provisions of Va. Code Ann. § 45.1-361.9 which provides that any order or decision of the Board may be appealed to the appropriate circuit court. Such appeals must be taken in the manner prescribed in the Administrative Process Act, Va. Code Ann. § 9-6.14:1 et seq. and Rule 2A:2 of the Rules of the Supreme Court of Virginia. Any person directly affected by this Order has thirty days following service of this Order to file his/her notice of appeal with the Principal Executive to the Staff of the Board. If such person receives this decision by mail, three days are added to the thirty day period.

22. Effective Date: This Order will be effective on the date of its execution.

DONE AND EXECUTED this 9th day of January, 1997, by a majority of the Virginia Gas and Oil Board.


Chairman, Benny R. Wampler

DONE AND PERFORMED this 9th day of January, 1997, by
Order of this Board.

Byron Thomas Fulmer
Byron Thomas Fulmer
Principal Executive To The Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA)
COUNTY OF WISE)

Acknowledged on this 9th day of January, 1997,
personally before me a notary public in and for the Commonwealth of Virginia,
appeared Benny Wampler, being duly sworn did depose and say that he is Chairman
of the Virginia Gas and Oil Board, that he executed the same and was authorized
to do so.

Susan G. Garrett
Susan G. Garrett
Notary Public

My commission expires 7/31/98

STATE OF VIRGINIA)
COUNTY OF WISE)

Acknowledged on this 9th day of January, 1997,
personally before me a notary public in and for the Commonwealth of Virginia,
appeared Byron Thomas Fulmer, being duly sworn did depose and say that he is
Principal Executive to the Staff of the Virginia Gas and Oil Board, that he
executed the same and was authorized to do so.

Diane J. Davis
Diane J. Davis
Notary Public

My commission expires 7/31/97

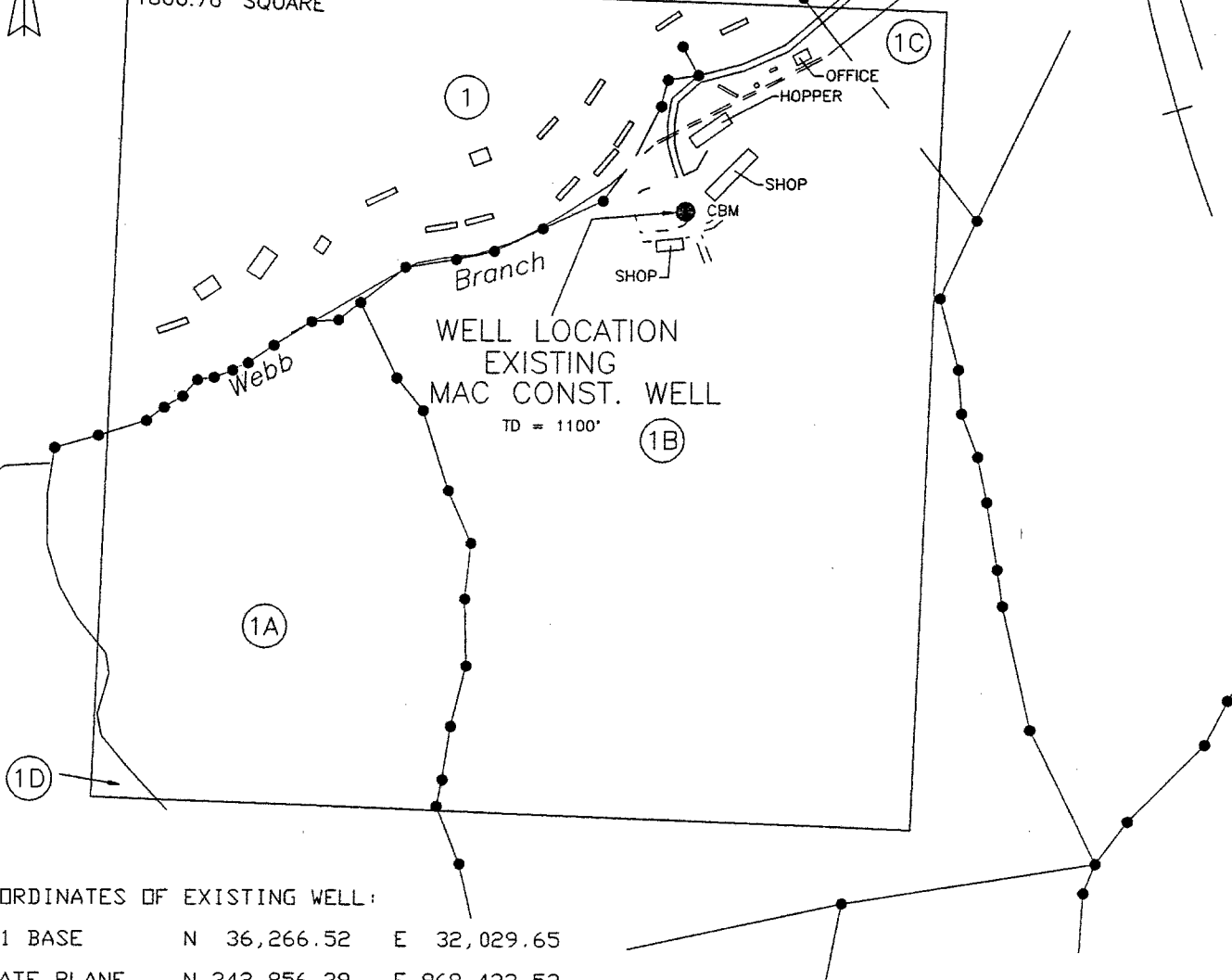
BEARING BASIS:
VIRGINIA STATE PLANE - SOUTH ZONE - NAD'27
ELEVATIONS:
BY TRIG. LEVELS FROM CONSOL INC BM'S

P/LS
MINERAL
SURFACE

PROPERTY LINES SHOWN
WERE TAKEN FROM MAPS
AND DEEDS AND WERE
NOT SURVEYED

80 ACRE UNIT

1866.76' SQUARE



COORDINATES OF EXISTING WELL:

VP1 BASE N 36,266.52 E 32,029.65
STATE PLANE N 342,856.39 E 968,423.52
ELEVATION 1342.19'

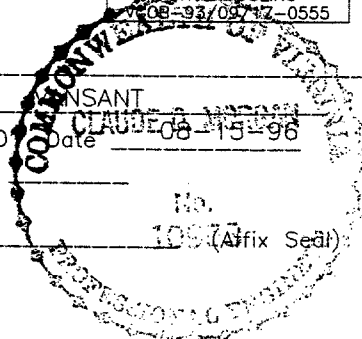
WELL LOCATION PLAT

EXHIBIT A
OAKWOOD FIELD UNIT N13
FORCE POOLING
08-93/09712-0555

Company CONSOL INC. Well Name and Number _____
Tract No. BIG VEIN 137 Elevation _____ Quadrangle _____
County BUCHANAN District SOUTH GRUNDY Scale: 1" = 400' Date 08-15-96
This Plat is a new plat X; an updated plat _____; or a final location plat _____

Claude O. Mayer

Licensed Professional Engineer or Licensed Land Surveyor



WELL PLAT LEGEND
Property and Lease Information
CBG N-13
VGOB-96-0917-0555

| | | |
|-----|------------------------------|--|
| 1. | Coal, Oil & Gas | Yukon Pocahontas Coal Co., Et al. Tract No. 137 |
| | Oil & Gas Lessee | None of Record |
| | Coal Lessee | Island Creek Coal Co. Jewell Smokeless Coal Corp. |
| | Coalbed Methane Lessee | Buchanan Production Co. |
| 1A. | Surface | MAC Construction Co. |
| 1B. | Surface | MAC Construction Co. |
| 1C. | Surface | MAC Construction Co. |
| 1D. | Surface | S.J. Breeding & L. Cox |
| | 80.00 Acres | 100.00% of Unit |

UNIT N-13
Docket # VGOB-96-0917-0555
Exhibit B
List of all Owners/Claimants

BOOK 457 PAGE 663

| | Acres in Unit | Percent of Unit |
|--|---------------|--------------------|
| I. COAL FEE OWNERSHIP | | |
| Tract No. 1, 19.36 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 19.36 acres | 24.20000% |
| Tract No. 1A, 18.39 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 18.39 acres | 22.98750% |
| Tract No. 1B, 40.58 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 40.58 acres | 50.72500% |
| Tract No. 1C, 1.33 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 1.33 acres | 1.66250% |
| Tract No. 1D, 0.34 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 0.34 acres | 0.42500% |
| II. OIL & GAS FEE OWNERSHIP | | |
| Tract No. 1, 19.36 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 19.36 acres | 24.20000% |
| Tract No. 1A, 18.39 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 18.39 acres | 22.98750% |
| Tract No. 1B, 40.58 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 40.58 acres | 50.72500% |

UNIT N-13
Docket # VGOB-96-0917-0555
Exhibit B
List of all Owners/Claimants

BOOK 457 PAGE 664

| | Acres in Unit | Percent of Unit |
|--|---------------|--------------------|
| Tract No. 1C, 1.33 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 1.33 acres | 1.66250% |
| Tract No. 1D, 0.34 Acres | | |
| (1) Yukon Pocahontas Coal Company P. O. Box 187 Tazewell, VA 24651 | 0.34 acres | 0.42500% |
| III. COALBED METHANE LEASEHOLD OWNERSHIP | | |
| Tract No. 1, 19.36 Acres | | |
| (1) Buchanan Production Company P. O. Box 947 Bluefield, VA 24605 | 19.36 acres | 24.20000% |
| Tract No. 1A, 18.39 Acres | | |
| (1) Buchanan Production Company P. O. Box 947 Bluefield, VA 24605 | 18.39 acres | 22.98750% |
| Tract No. 1B, 40.58 Acres | | |
| (1) Buchanan Production Company P. O. Box 947 Bluefield, VA 24605 | 40.58 acres | 50.72500% |
| Tract No. 1C, 1.33 Acres | | |
| (1) Buchanan Production Company P. O. Box 947 Bluefield, VA 24605 | 1.33 acres | 1.66250% |
| Tract No. 1D, 0.34 Acres | | |
| (1) Buchanan Production Company P. O. Box 947 Bluefield, VA 24605 | 0.34 acres | 0.42500% |

UNIT N-13
Docket # VGOB-96-0917-0555
Exhibit B-3
List of Unleased Owners/Claimants and Respondents

BOOK 457 PAGE 365

| | Acres in Unit | Percent of Unit |
|--|---------------|--------------------|
| Tract No. 1A, 1B, 1C, 60.30 Acres | | |
| <u>SURFACE OWNER/RESPONDENT</u> | | |
| (2) Mac Construction Company P. O. Box 338 Oakwood, VA 24631 | 60.30 acres | 75.37500% |

UNIT N-13
Docket # VGOB-96-0917-0555
Exhibit E
List of Conflicting Owners/Claimants and Respondents

BOOK 457 PAGE 666

| | Acres in Unit | Percent of Unit |
|---|---------------|-----------------|
| Tract No. 1A, 1B, 1C, 60.30 Acres | | |
| <u>COAL FEE OWNERSHIP</u> | | |
| (1) Yukon Pocahontas Coal Company P.O. Box 187 Tazewell, VA 24651 | 60.30 acres | 75.37500% |
| <u>OIL & GAS FEE OWNERSHIP</u> | | |
| (1) Yukon Pocahontas Coal Company P.O. Box 187 Tazewell, VA 24651 | 60.30 acres | 75.37500% |
| <u>SURFACE OWNER/RESPONDENT</u> | | |
| (2) Mac Construction Company P. O. Box 338 Oakwood, VA 24631 | | |

VIRGINIA: In the Clerk's Office of the Circuit Court of Buchanan County. The foregoing instrument was this day presented in the office aforesaid and is, together with the certificate of acknowledgment annexed, admitted to record this 22nd day of January, 1997 at 2:30 P. M.
Deed Book No. 457 and Page No. 687. TESTE: James M. Beyns, Jr., Clerk
Returned this date to: Alice Davis TESTE: [Signature] Deputy Clerk

VALIDATE CASE PAPERS
RCPT : 970000000502
DATE : 01/22/97 TIME: 14:39
CASE : 027CEM970122007
ACCT : CASH
AMT. : \$1.50